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A review by the **Federal Reserve Bank of Chicago**

Business Conditions

1956 January



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THE Trend OF BUSINESS

Rising business activity during 1955 required steady additions to the nation's work force. During the fourth quarter an average of about 51 million persons were on business payrolls—almost 1.8 million more than a year earlier and a new record. As a result, in many areas pockets of unemployment continued to melt through the year.

Early in 1956 a seasonal reversal in the employment upswing is inevitable. Just as December almost invariably records the employment high for the year, as hirings rise to accommodate Christmas business, so do January and February mark low points. Temporary workers are released by retail stores and the post office, construction is at a winter low, food processors have finished their packs and many factories have shut down or slowed operations to take inventory. The total reduction between December and February may run up to two million workers. Many of the persons involved do not leave the labor market, but swell the rolls of the jobless. March usually brings a back-to-work movement.

Midwest centers especially strong

The latest labor market classifications of the Bureau of Employment Security moved Chicago, Milwaukee and Peoria upward into "group B," characterized as strong labor markets with less than 3 per cent of the labor force unemployed. Indianapolis and Fort Wayne had been advanced to this group earlier in the fall to join most of the Michigan automobile centers.

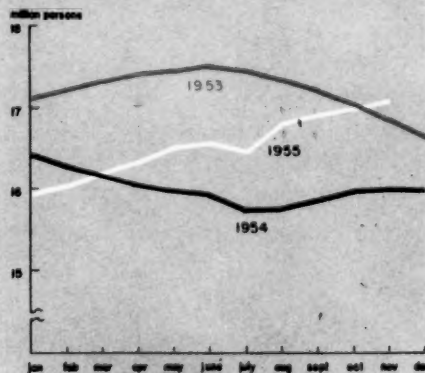
Two out of three major Seventh District centers are now in group B compared with one in four for the rest of the nation. No U.S. cities currently are classified as group A—

having unemployment at less than 1.5 per cent.

Interestingly, the only two cities in the District considered to have a substantial labor surplus are South Bend and Terre Haute. These cities are located in the same state as Indianapolis, Fort Wayne and the Gary-Hammond portion of the Chicago metropolitan area, all of which report very tight labor markets. This situation reflects the tendency for jobs and workers to get out of balance in local areas and the reluctance of workers to seek work at a distance from their homes and former jobs.

In November some types of manufacturers stated that they were planning a further moderate net boost in hirings in December and January. Again important Midwest industries are among the leaders. Trends in the automotive segment appear to be moderately downward pending a more definite evaluation of consumer

**Manufacturing employment
nears 1953 level**



acceptance of 1956 models of passenger cars. However, further gains are occurring in steel and in the electrical, industrial, household and farm machinery industries. In the case of farm equipment, the uptrend is a distinctly seasonal phenomenon. In summary, the Midwest hard goods industries are continuing to share more than proportionately in the nation's employment growth.

As in earlier periods of full employment during the past fifteen years, many types of job openings are going begging. Shortages of engineers, draftsmen, electrical technicians, tool and die makers and machinists needed by the metal-using industries are particularly acute. Meanwhile, competition for stenographers and other white-collar workers remains strong. Many firms have expressed disappointment at the meager response elicited by help wanted ads, and recruiting officers making the rounds of the universities find that they must do a job of selling seniors in technical fields on the advantages of employment with their firms. Some personnel managers maintain that the job market is the tightest since World War II despite well-publicized periods of stringency since that time.

Under these circumstances, it is noteworthy that most employers have tried to maintain hiring standards and have used restraint in their attempts to bid workers away from competitors. In part, this attitude results from the personnel difficulties which arise when new workers are started at pay rates close to those earned by old hands of demonstrated competence. More important, however, is the desire to keep costs under control in preparation for more competitive situations which many executives expect will be reasserted later in the current year.

Steel in the spotlight

Employment in manufacturing would be even larger were adequate supplies of metals

Classifications of the Bureau of Employment Security

Group B—Less than 3 per cent unemployed

Flint, Grand Rapids, Kalamazoo, Lansing, Saginaw, Aurora, Chicago, Joliet, Peoria, Rockford, Fort Wayne, Indianapolis, Madison, Milwaukee, Cedar Rapids, Des Moines.

Group C—3 to 6 per cent unemployed

Battle Creek, Detroit, Muskegon, Davenport, Rock Island-Moline, Kenosha, Racine.

Group D—6 to 9 per cent unemployed

South Bend

Group E—9 to 12 per cent unemployed

Terre Haute

available. In November and December, steel firms were pouring a record 2.4 million tons of ingots per week and had finally reached 100 per cent of rated capacity. Moreover, orders already on the books plus knowledge of steel buyers' future needs indicate that operation at peak rates is virtually assured through the first half of 1956.

The scramble for steel assumed a hectic pace late in 1955, with all major categories in short supply. Conversion deals, which greatly increase costs, and bartering among steel users have been common. Increasingly, factory production has been hampered by steel shortages, and building projects commonly have been delayed for lack of structural steel. Some concern has been expressed over the adequacy of ore stocks laid in before ice closed the Lake Superior passage.

Steel producers expect some slackening in demand in the second half of 1956. Nevertheless, a new expansion wave is under way which may add three to four million tons to capacity annually for several years to come, assuming a realization of current expectations of long-run demand. Thus far, Inland Steel's 260 million dollar, three-year plan for its Chicago area facilities heads the list of new proj-

ects, but other area plants have also announced sizable additions.

Construction heading for another high

The volume of new nonresidential construction activity can usually be estimated fairly accurately for six or seven months into the future on the basis of contracts already let and work on architects' drawing boards. Industry experts look for a 10 to 12 per cent gain over last year in construction other than housing during the first six months of 1956. For the year as a whole, Government sources project a 5 per cent rise for construction of all types. These estimates, incidentally, have consistently understated actual results in the past. A year ago, a 7 per cent rise was anticipated for 1955, whereas it appears a 12 per cent gain occurred.

From July through November of 1955, contract awards reported by F. W. Dodge for 37 states exceeded the same period of the pre-

vious year by 14 per cent. The Midwest lagged these results chiefly because of a lower level of awards for public works and because of a reduced level of new housing contracts in the Detroit area. In the strong nonresidential building sector, however, the 20 per cent rise in this region equals the national gain.

Possible weakness in the housing field has been widely publicized as an uncertain element in the business outlook. Government estimates call for a 3 per cent decline in dollar volume of new dwelling units in 1956, but it is believed that this will be largely offset by higher outlays on additions and alterations to existing houses. Meanwhile, the Federal Home Loan Banks have relaxed credit restrictions announced early last fall. Savings and loan associations can now borrow up to 5 per cent of their share accounts if the additional loans would not increase outstanding indebtedness to the Home Loan Banks above 10 per cent.

The economic consequences of the baby boom

More and more, after-dinner speakers point to rapid population growth as a factor underwriting long-run prosperity. Since the 1950 census, our numbers have increased by 15 million to 166 million, a gain of about 2 per cent per year. This represents a sharp rise from the decade of the Thirties when growth proceeded at a rate of only 0.7 per cent annually. Even that increase was expected to slacken. In those years the prospect of a stabilized population helped buttress the view that the American economy was approaching "maturity."

Beyond first glance, the belief that population growth helps achieve a better life for all appears paradoxical. Recent increases have

been concentrated in the nonproductive age groups—children under 20 and those retired or in their declining years. If births remain near current levels, population growth in the next ten years also will produce "mouths to feed" faster than working hands. Were it not for the astounding rise in the productivity of the American economy, this prospect would point to an era of belt-tightening rather than a steady rise in per capita income.

The idea that population growth provides the basis for prosperity, therefore, rests upon the thesis that our ability and willingness to consume tends to lag our productive potential. An increase in the number of consumers, it

would appear, offsets this tendency by stimulating demand for personal consumption. Under these conditions adequate levels of personal income will bring continuous pressure for expansion of most sectors of industry.

Into the cold world

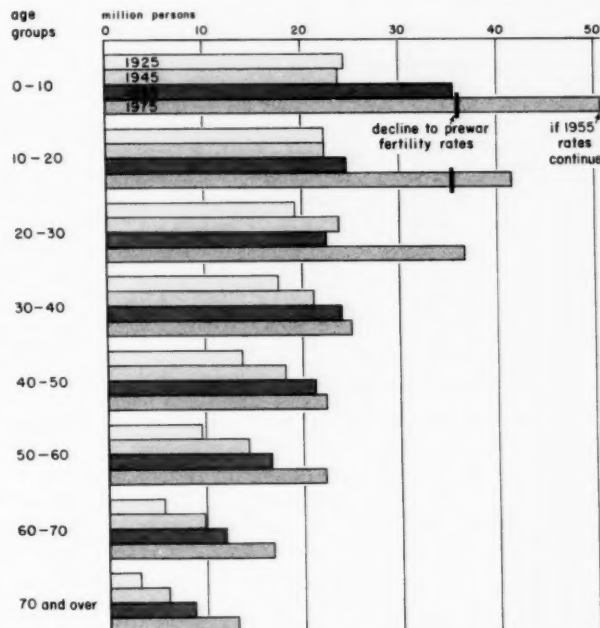
While children remain dependents, they may be likened to productive units under construction, although to their parents they may appear to be "consumer durable goods" with a high maintenance cost. At some stage in their life they will become producers. In a very real sense expenditures on additions to the productive labor force represent the largest single capital outlay of the economy.

The conventional definition of the labor force, those 14 and over, has become increasingly inappropriate as high school education has become general, and the proportion of high school graduates has risen to one-fourth. In addition, the average time spent in advanced studies has lengthened. For economic analysis 20 is probably a better age than 14 as the lower limit for the working age group.

More than half of the 25 million increase in population since 1945 has been in the under 20 age group and more than 14 per cent in the 65 and over group, so that less than one-third or eight million of the addition has been in the producer group. By way of contrast, in the previous ten-year period 10 million of the 13 million gain was in the working age group (see chart). In the earlier period, the newly born barely equaled the number of individuals crossing into the 20 and over category.

Even so, the past decade has been marked by advancing living standards and increased leisure. This has been possible because output per hour has increased sharply, thanks to higher labor skills and increased investment in

Population increases in past decade concentrated in the old and young; sharp rise in workers indicated after 1965



improved plant and equipment. Thus, gains in per capita real income in the postwar period have occurred in spite of the growth in population, not because of it.

These comparisons help to explain the fact that as late as 1939, with physical output at near 1929 levels, unemployment totaled about nine million. During the War these individuals and others coming of age were fully absorbed in the armed forces and in industry. In fact, a vast increase in output occurred at the same time that the armed forces were built up to the 12 million level. At the present time, shortages of labor, particularly for job openings which are typically filled by young people, reflect, in large part, the fact that two-thirds of the population increase in the postwar decade has been in the dependent age groups.

About a million persons a year were added

to the 20-65 working age group during the 1935-45 decade. Since that time the number has dropped to less than 800,000 per year, and a further moderate decline is in prospect for the next ten years. As the postwar babies come of age in the 1965-75 period, the average yearly addition will *double*.

The economic significance of these trends is enormous. For the next ten years labor shortages are likely to remain chronic during periods of high-level activity. Pressures to cut costs through the use of labor-saving equipment and technological research will remain strong. A continued assertion of trends toward more leisure and education—shorter work weeks, longer vacations and earlier retirement—will accentuate the problem.

Two hundred million — and more

In October the Bureau of the Census released a new set of projections of population growth for five-year periods through 1975 (see chart). They are based upon specific assumptions as to the number of children born to women in various age brackets. Four separate projections were reported. The high projection assumes that the 1954-55 fertility rate will continue through 1975. The low projection assumes that the rate will gradually decline to the prewar level.

Forecasts of U. S. population are heavily dependent upon the accuracy of assumptions regarding the birth rate. Before World War I variations in immigration and declines in the death rate were the important variables. Since 1924 restrictions on entry have greatly reduced the importance of immigration. Meanwhile, great achievements in the conquest of communicable diseases and the care of women and infants before and after childbirth have drastically slashed the death rate among the young. In the past decade less than 10 out of every 1,000 Americans have died each year, about half the number fifty years ago.

The life expectancy of an infant born in the United States is now very close to the biblical three score years and ten, about twenty years more than it was a half century ago. For the

most part, these gains reflect reductions in infant and child mortality. From forty on, life expectancy probably is no more than two or three years greater than it was throughout historical times. Apparently, a person reaching middle age in former days as now had demonstrated an ability to weather microbes and other vicissitudes of life. The current death rate can be projected into the future at about present levels until some dramatic advance is achieved in the cure of heart disease and cancer, the prime killers of the aged.

How much do babies cost?

Since World War II about 25 births have occurred each year per thousand Americans. This level represents a sharp rise from 19 per thousand in the middle Thirties. Before World War I the rate was relatively stable at about 30 per 1,000. This was followed by a fairly steady decline to depression lows, interrupted only by the baby boom of the early Twenties which followed the wave of war marriages.

At the present time the birth rate is dependent upon three main factors: (1) the number of women of child-bearing age, (2) the level of prosperity and (3) the desire of married couples to have children.

Each of these factors has played a part in achieving the high birth rate of the past decade. Only the first, the number of women of child-bearing age, can be projected into the future with a high degree of accuracy. The postwar rise in births was importantly influenced by the marriages of children born in the early Twenties. These children in turn will contribute to a bulge in births ten to twenty years from now. Likewise, births in the next few years will tend to be depressed by the meager baby crop of the 1930's.

Although the slide in birth rates in the early 1930's continued a long-term trend, it is apparent that the depressed levels of income during those years further reduced marriages and births. Obviously, the cause and effect relationship between population growth and prosperity cuts both ways.

In many cases the children not born during

the depression were "postponed" until the War and postwar period. Individuals believed themselves better able to "afford" marriage or, if already married, to afford children. These developments resulted in a relatively high birth rate among women in their later child-bearing years. Moreover, young people married earlier than before. The boost to births from these factors, of course, will be of much lesser importance now that the "backlog" has been used up.

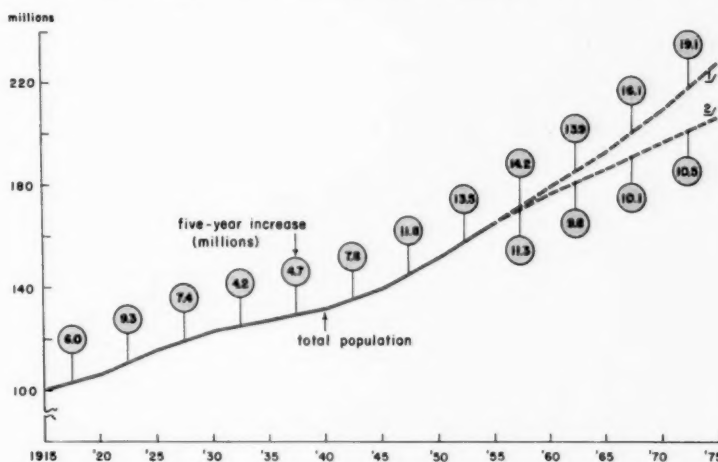
If high-level prosperity is maintained, the big unknown in estimating future birth rates and population growth is the attitude of married couples toward the most desirable family size. Although there appears to have been some break-through toward the multiple-child family, the great bulk of the increase in births in recent years is accounted for by a first, second or third child. Further gains in the fourth and fifth child group will be necessary if total births are to remain near current levels in the years immediately ahead.

The number of children in a family has a strong impact on its expenditure pattern and thus exerts a selective influence upon demand and prosperity. More children mean less money spent on goods for parents. Thus, children, born and unborn, compete in family budgets with automobiles, new home furnishings, vacations and, perhaps most important, savings in form of liquid assets.

Babies for a better tomorrow

The acid test of the modern economy's ability to effectively utilize its labor force will begin about ten years from now. In the decade 1965-75 provision will have to be made for a

Population growth will slacken if birth rate falls



¹Assumes continuance of 1954-55 fertility rates. ²Assumes decline to prewar fertility rates.

17 per cent increase in the number of people of working age, even assuming "full employment" at the beginning of the period. Jobs for all will present an even greater challenge than in the 1935-45 period, when the work force increased by less than 14 per cent.

There is growing confidence that substantial improvements in living standards can be achieved between now and 1965. A fuller realization of the nation's economic potential, however, will await the more rapid growth in the work force in the following decade. The prospect for economic well-being is most favorable for those years if the nation's productive machine can absorb the avalanche of new workers. In essence, a renewal of the relative growth of the producer group means that more people will have more time to appreciate a greater abundance of the "good things" of life.

In this light the growing number of children in the population can be looked upon as a stock of "human capital" in the process of construction. Like other capital goods, children consume resources during the building process before they are ready to add to output. The main difference is "construction" time.

The price picture, pressures building up?

Reports of new price boosts have figured prominently in the business news for some time now. Puzzling to many, in the face of this, is the continued stability of the major price indexes. The consumer index—the most comprehensive indicator of price activity at the retail level—has shown no perceptible response.

At first glance, wholesale prices seem to have matched the behavior of prices at retail. While the official index rose by about 1¼ per cent between June and late summer, it still was within a hair's breadth of the level it had been charting ever since the backwash of Korea ebbed away.

The figures behind the averages

The picture looks a lot different, though, if we take a look at the figures underlying the all-inclusive average. The 15 subgroups of the all-commodity index afford clear indications of a good deal of behind-the-scenes activity which in turn gives measured support to the view that inflationary pressure has been building up.

Prices of nonfarm products taken as a whole have been moving forward. Over-all, their advance came to something over 3 per cent between June and November. Meantime, though, the averages for processed foods fell by around 5 per cent and for farm products nearly 8½ per cent. Between mid-1954 and early last summer, the tumble in farm and food prices, under way with some interruptions ever since Korea, had been enough to offset the slow rise in industrial prices. Since June, the strength shown by the weighty nonfarm list has more than counterbalanced the continued losses in foods and farm products. This explains the mild advance in the all-commodity index.

Industrial prices have a lot more leverage

than farm and food prices in the all-commodity index. A small rise in industrial prices, therefore, can offset a far larger fall—roughly, a fall three times as great—in farm and food prices. The reason for this is that industrial commodities account for over three-fourths of the entire volume of transactions in the nation's primary product markets.

Strength in important industrial items

The 13 individual subgroupings into which the industrial or nonfarm index divides have displayed a good deal of variation in both the direction and the degree of change. Particularly active on the upside have been three of them,

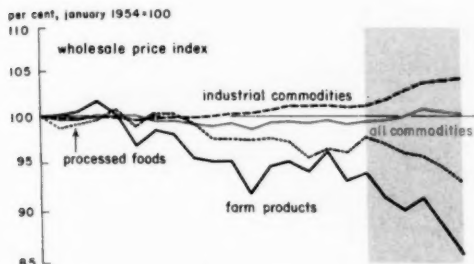
Relative importance (in December 1954) of the 15 subgroups of the wholesale price index

	Per cent
All commodities	100.0
Farm and food products.....	24.5
Processed foods	13.7
Farm products	10.8
All other products.....	75.5
Machinery and motive products.....	17.1
Metals and metal products.....	13.6
Fuel, power and lighting materials.....	9.0
Textile products and apparel.....	8.3
Chemicals and allied products.....	6.5
Furniture and household durables.....	4.1
Pulp, paper and allied products.....	3.7
Lumber and wood products.....	2.7
Tobacco manufactures, bottled beverages..	2.4
Nonmetallic minerals—structural	2.1
Rubber and rubber products.....	1.8
Hides, skins, leather and products.....	1.4
Miscellaneous products	2.8

SOURCE: All data from U.S. Bureau of Labor Statistics.

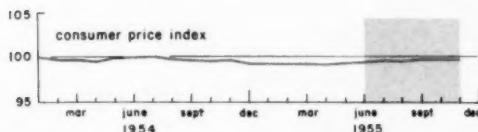
Industrial prices up since June

Falling farm prices steady all-commodity index



Consumer index holds firm

Main reason: the heavy influence of food prices



the metals, machinery and rubber groups. So important in the economy are the commodities listed under these headings that the indexes for the three categories combined exert nearly one-third of the total "influence" on the all-commodity index (see table). A sizable movement on the part of the subindexes for one or more of these groups thus may largely overshadow countermovements by other groups.

Price averages for textiles and apparel, hides and their products and chemicals and allied products have shown either small losses or else little movement one way or the other. Since the nation's farms are an important source of the raw materials used in producing these commodities, the sag in agricultural prices doubtless provides a good part of the explanation.

The crucial part played by the manufacture of durables, especially automobiles, and by construction activity, during recovery from the 1953-54 setback and since then, is apparent from the pattern of price movements. Some of the sharpest gains have been scored in commodities identified with these sectors, either as products or as materials used.

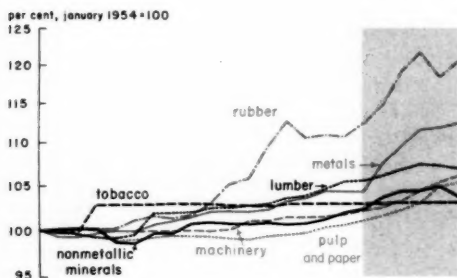
The price leaders

Breaking the all-commodity index into its subgroups is a way to identify those areas where unusual activity has been evident. But the subgroups themselves embrace varieties of commodities, and some of these can be expected to display considerably more movement than others. A glance, then, at the behavior of particular commodities that make up the subgroups reveals some of the "leaders" which have dominated the behavior of the broad subgroups.

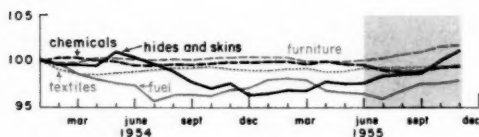
The steam behind the gain shown by the metals group has been pretty well diffused, with the ferrous and nonferrous categories both displaying strength. Scrap steel started its climb early in 1954, but the big push was to come later on, in the second half of 1955. By the year's end heavy melting scrap in the larger steel centers was commanding between \$45 and \$50 a ton, half again as much as a year earlier and twice as much as in the early months of 1954. Semifinished products have moved upward twice, largely in sympathy with the pattern of the steel industry's wage settlements negotiated in mid-1954 and again a year later. During the past few months, moreover, a rash of piecemeal price adjustments have been made, typically in an upward direction. The upsurge of scrap prices has raised the possibility of another across-the-board advance in mill product prices.

Most spectacular performer in the nonferrous metals group has been *copper*. Recently at 43 cents a pound, the price of the red metal has jumped by nearly half since the year began. The booming economy of western Europe is partly responsible for pressure on supplies. Copper is one of the more important of internationally traded commodities. For an explanation of its price behavior it is necessary to look to conditions of world-wide demand and supply. The effects on the domestic market of copper's advance have been transmitted directly to brass, alloyed of copper and zinc, and indirectly to copper substitutes, chiefly aluminum.

Industrial commodities vital to durable manufacture and to construction chart sharp advances



Falling prices for farm materials
steady chemicals, textiles and hides



The big influence behind movement of the index for *rubber* and allied goods has been an exceptionally sharp rise in the price of the natural product, again an important article of foreign commerce much in demand outside the United States. After gaining by about half during 1954, natural's price went on to rack up another 50 per cent advance during the first 10 months of 1955. The significance of this spectacular rise is mitigated by the growing reliance of domestic users upon synthetic rubber, which has shown no response to expanding demand.

The fuel, power and lighting materials category has been quiet during 1955, but the reason for this is that offsetting tendencies have been at work. *Electric power* prices appear to have been going down, while *fuel oil* and *bituminous coal* have advanced considerably. The fall in the price of electric power, moreover, has been more apparent than real, since it reflects the effect that a substantial advance in power consumption has had in pushing industrial users

upward into the lower brackets of existing rate schedules.

The chemicals and allied products group is another which has held the line during the past year. Within it, though, *plastics* showed a rather pronounced drop between June and July and no other month-to-month changes. Sole reason for the fall in the plastics "sub-index" was a reduction in the price of vinyl, from 38 to 31 cents a pound, between June and July. This type of plastic material carries the greatest weight of any in the group, so the fall in its price materially affected the group index. Quoted prices for other plastic materials, however, remained unchanged, and there was negligible activity on the part of other components of the whole chemicals group.

Among the remaining leaders are prices of a variety of woods and wood products—the advances in which have helped sustain a continuing rise in building costs—paperboard containers and wastepaper and a number of types of machinery.

From materials to final products

The more important commodities whose prices have shown movement in the past year fall generally into three groups. First, there are several important types of crude or raw materials: natural rubber, steel scrap, fuel oil and bituminous coal. Upward movement in the prices of all of these, except coal, set in during 1954 or early in the recovery from the setback that started the year before. Next came a number of semi-processed goods, like steel mill products, nonferrous mill shapes and metal construction components. Most of the push behind the prices of these items came in 1955; prices as the year opened were little different from a year earlier. Finally, come finished products, which for the most part have been latecomers to the price procession. Prices of construction machinery—tractors, graders and cranes, for example—scored sizable gains in 1955, but these did not occur until the late summer and early fall months.

Materials prices are generally more flexible than prices of goods further along in the com-

modity pipeline. They typically respond to demand pressures more quickly and more fully than prices of semifinished and finished goods. Many of the crude materials are well standardized and thus easily traded in organized open markets. Buyers are numerous and so are sellers, and neither group has effective control over prices. Processed and finished goods, however, are commonly bought and sold at "administered" prices which are to some degree controlled by sellers (and sometimes buyers), at least against the effects of transient changes in market conditions. Revisions in price schedules usually come rather tardily and, when they do, they often fall short of the maximum the "traffic" would bear. Sometimes this tendency to "hold the line" can even mean that the price increases do not come at all.

The backward look

One of the big drawbacks of data on prices, including the price indexes, is that even the latest available information is always old. When the economy is bumping along at an even clip, this shortcoming is not very important. But when things are happening fast, old news may be little better than none at all. Right now, the latest available *complete* compilation of wholesale prices applies to a day (Tuesday of the week containing the 15th) three months back. And the latest indexes—for the subgroups and their major components—describe affairs on a day about six weeks ago.

Daily figures for certain leading price-sensitive goods are available promptly from official sources and also are to be found in the financial press. Yet the items covered are not necessarily the significant ones at the moment, however significant they may have been over a period of years in the past.

Thus the gap between what *has* happened and what *is* happening remains largely a matter of uncertainty or, at best, crude conjecture.

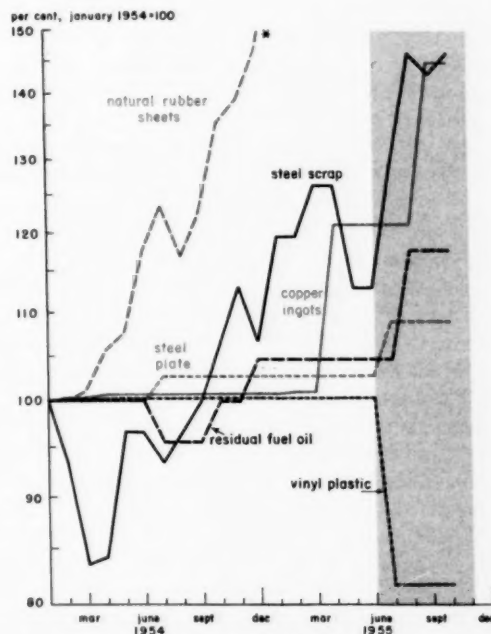
Perhaps more serious as a drawback of price data is the failure of published quotations to reflect adequately concessions or premiums that may be the initial form of sellers' response to changes in market conditions. Nor will price

data themselves reflect the impact of flights to substitute goods or methods of production dictated by shifting price relationships between commodities and processes.

At the present, it seems possible that the sharp uptrend in the nonferrous metals index may somewhat overstate the net cost effect on buyers. Reportedly, there has been a widespread trend toward substitution of aluminum for copper. Aluminum has not risen in price as much as copper, so that the "effective" price of copper-type material must be closer to the aluminum price than the subindex would suggest.

Similarly, but on the other side, reports of steel conversions in the face of today's tight supply situation imply that the formal quotations and indexes for the ferrous metals group

The leaders: some of the important prices that have given action to the group averages



understate the upward movement in "effective" prices that has been under way.

A price index is vulnerable to the passage of time. The price changes that make it up have to be "weighted" to reflect the relative importance of the items covered. And, in practice, the weights are tied to some past period. The mix of total commodity sales in 1952 and 1953 provides the weights currently used in the wholesale index. Since the make-up of commodity purchases today differs from that of 1952-53, the index to some degree fails to give a faithful picture of the net effect of a variety of divergent price movements.

Capacity growth and price pressure

The behavior of prices during the past two years—particularly the last six months—shows pretty clearly that the pace of expansion has come to press against productive capacity in a number of crucial sectors of the economy.

Capacity, however, is by no means a fixed and unchanging magnitude. Since the War, an unprecedented volume of investment in new plant and equipment has increased the production potential of the American economy by as much as half. And the process continues, with outlay in the coming year widely expected to set a new record.

The supply side, then, is active as well as the side of demand. Should the pressure on prices continue to grow, this will not be the effect of a failure of capacity and output to grow, but the result of a burgeoning of demand at an even greater rate. The firming of money rates, some slowdown recently in residential construction and the likelihood of a somewhat slackened pace in automobile buying during the coming season, however, furnish evidence that market demand may be entering a phase in which it is less likely to press so hard on our growing productive capacity as it has lately.

What they're saying— about farm prospects, 1956

For Midwest farmers the winter months are a period of inventory taking and planning for the future. Even before the records are closed for 1955, plans for 1956 begin to take shape.

By far the most important source of information drawn upon in this appraisal and planning process is the farmer's own experience. But the facts and opinions gleaned from a host of other sources also have a bearing on the plans that emerge. Newspapers and magazines, radio and television, county agents, state colleges, professional farm managers, farm-oriented business firms and the U. S. Department of Agriculture all may be consulted. Probably no other kind of business is so well serviced with technical and

outlook information, and for the most part it is available free or at nominal cost and is often very good.

More of the same?

For several years now, farmers have produced more commodities than have been sold for domestic consumption and export. Despite a step-up in surplus disposal activities, stocks of commodities owned and under price support loan to the CCC have increased each year since 1952. In a way, this is the most important single fact confronting Midwest farmers as they take stock of the current situation and lay plans for the year ahead.

The general economic climate in which farmers will be operating in 1956 is expected to be quite similar to that which prevailed in 1955. Domestic demand may expand further but at a slower pace than in the past year. Higher consumer income is indicated by prospects for high-level employment, full work weeks and a rising trend in wage rates. However, any increase in consumer expenditures for food, as in other recent years, may go largely for services related to the processing and marketing of food and not show up as increased demand for products at the farm.

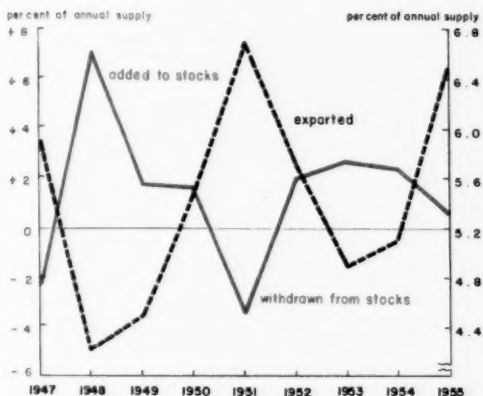
It is in this setting that the U. S. Department of Agriculture concluded at its annual outlook conference that "a further drop in cash receipts from farm marketings" is in prospect for 1956. Furthermore, with farm production costs indicated to remain at about current levels and marketing charges likely to average higher than in the current year, net farm income would also decline. With this general appraisal of the agricultural situation there is widespread agreement.

Export prospects are especially important to farmers producing such Midwest commodities as wheat, soybeans and lard. However, even those farmers who produce exclusively for the domestic market cannot afford to overlook the export situation since land not used to produce for export can be, and usually is, shifted to the production of crops for domestic use. Fortunately, the foreign demand for fats and oils, and oilseeds, promises to remain strong, a much more favorable picture than for other major export crops, especially cotton, wheat and rice. Total agricultural exports are expected to be maintained about at the 1954-55 level.

Farmers' costs, over-all, probably will show little change in 1956. Prices paid for equipment and materials of industrial origin are expected to average higher than in 1955, but these increases may be largely offset by lower prices for materials of farm origin—feed, livestock and seed. Thus, the cost-price squeeze will continue operative, except for those farmers whose costs consist largely of purchased livestock and feed or whose products show price gains.

Revisions in price support programs are not

Exports have been important factor affecting change in stocks

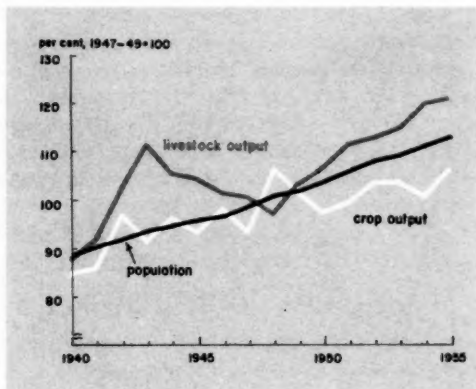


expected to materially change the agricultural situation in the year ahead. USDA outlook statements "leave out of account any changes in farm programs that may be made in the coming session of Congress" but note also that while "such changes could affect the long-term outlook very substantially" they probably would not "affect the 1956 outlook very decisively." The Doane Agricultural Digest agrees with this view, at least as it applies to the short run, and advises that "no miracles or government programs will come along to make any great changes in the farm picture during 1956."

Consumers well fed

A factor stressed by some economists is the increasing proportion of the population which has graduated to the middle and upper income brackets. This could result in a reduced response in the demand for agricultural commodities due to changes in income. In other words, after some "fairly comfortable" income level is achieved, a family may be purchasing about all the food it wants. Additional expenditures for food as the incomes of such families rise tend to be for the purchase of additional services rather than additional quantities of agricultural commodities; for example, eating out.

Production increases in recent years largely in livestock products



There is considerable room of course for further upgrading of diets of many families, especially those in the lower income brackets. This is an important factor in the relatively favorable long-term outlook for livestock products as compared with such crops as wheat and potatoes. However, food consumption patterns change slowly, and the gradual changes taking place in American diets are of minor significance in the farm outlook for 1956. Nevertheless, it is in the livestock products, and certain fruits and vegetables, where U. S. farmers have the best possibilities of expanding domestic markets.

Shifting levels and sources

Farm income has been highly volatile over the past 15 years. This reflects the changes in demand for agricultural commodities, due largely to war and reconstruction, and the slowness with which agricultural output adjusts to such changes.

Net farm income reached its highest level in 1947, reflecting the effects of small harvests throughout much of the world and heavy demands for relief feeding in war-disrupted countries. Farm prices and gross farm income set record highs in 1951, under the influence of

Korea, but net income did not match the 1947 record. In recent years the trend in farm prices and income has been generally downward even though the economy over-all has moved to higher levels.

However, agricultural income accounts for only about two-thirds of the net income of people living on farms, and their income from work off the farm has not varied so much in recent years as income from farm sources. This fact, along with the decline in farm population has provided some stability to the per capita incomes of people living on farms which is not evident in the agricultural income totals. Assuming a continuation of good business and of attractive job opportunities in most nonagricultural sectors of the economy, more farmers located on relatively poor land or having inadequate capital will turn increasingly to nonfarm alternatives in 1956 and succeeding years.

Strong finances, some erosion noted

Despite the lower farm income and the continued downtrend in farm commodity prices, U.S. farm real estate values advanced in 1954 and 1955. Current reports from Midwest bankers, however, indicate that land values leveled off in areas affected by drouth and low hog and cattle prices in recent months.

The trend in farm debt has continued upward, reflecting a greater use of credit to finance agricultural production as well as the procurement of consumer goods. The increase in farm mortgage debt was especially notable in 1955. The higher level of farm real estate values, increased use of credit to finance real estate transfers and some increase in the amount of non-real estate loans refinanced into longer-term farm mortgage loans all contributed to an increase of nearly 10 per cent in farm real estate debt. Total farm debt, nevertheless, remains at a relatively low level as compared with the value of farm assets or the current level of farm income.

A livestock area

The outlook for Midwest farmers is closely tied in with livestock. Output of livestock prod-

ucts has increased more rapidly in recent years than has the output of crops, and this trend is expected to continue. Possibly most important for the year ahead is the outlook for *hog* production.

An indicated 11 per cent increase in the fall pig crop is expected to maintain hog marketings at a high level through the first half of 1956. Relatively low hog and corn prices in recent months may cause farmers to cut back somewhat on the 1956 spring pig crop, especially in the western Corn Belt. However, no sizable reduction in U.S. pig crops is expected before the fall of 1956 and no substantial reduction in hog slaughter before 1957.

"Cattle slaughter may be reduced slightly in 1956, and cattle prices generally may begin a slow recovery." This prospect reflects the expectation that slaughter of cows and heifers will slow down from the fast rate of the past year.

Over-all, cattle inventories are expected to remain close to the record levels of last year. Barring severe drouth, which could force liquidation of herds, output of beef would about equal that of last year but prices may be firmer as per capita supplies decline a little. According to the USDA, "profits in cattle feeding may be no more than average, but might prove better than the past year in the longer feeding programs."

Dairy supplies are expected to continue burdensome for several years as increased output causes milk prices to be heavily dependent upon the price support program. The indicated increase in output is based on the relative improvement in the

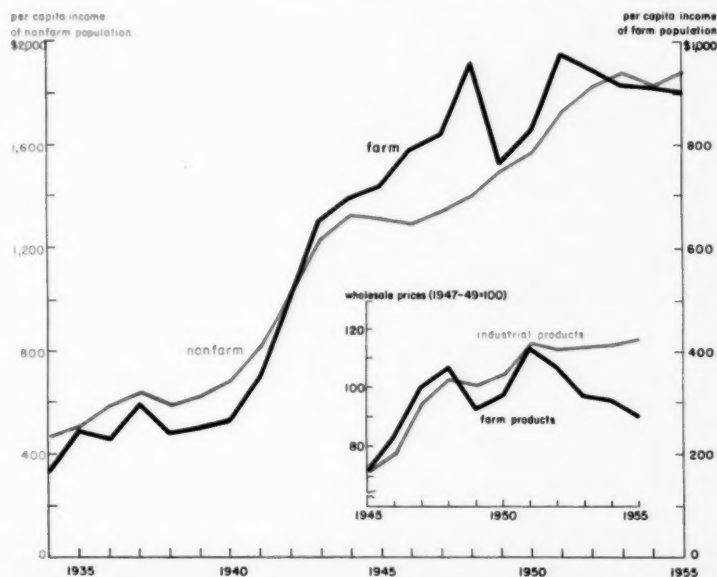
economic situation of dairying. While dairy product prices improved slightly during the past year, prices of meat animals and grains declined. Moreover, a number of long-term factors are also operating to boost milk output. These include better quality cows, more nutritious roughages and more efficient production practices. If output is increased and prices are maintained at recent levels, dairy income would of course rise somewhat.

Relatively favorable prices for *eggs* and *poultry* during the latter part of 1955 and lower feed prices have boosted profit margins and may have set the stage for increased output and lower prices in the second half of 1956. However, growers have been cautioned that any substantial increase probably would lead to a reoccurrence of price and profit difficulties.

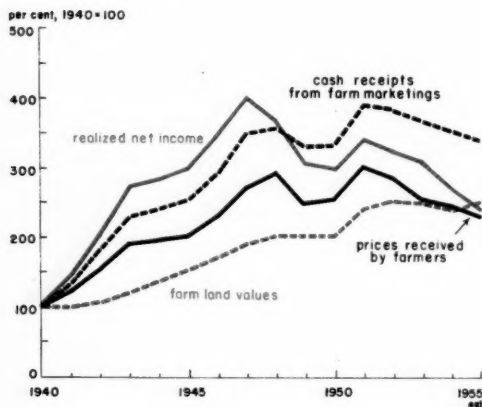
Feed crops and soybeans

Midwest cropland is used largely to produce livestock feeds. Supplies for the current feeding

Income of farm people showed relative gain from 1940 to 1948, then slipped back to about prewar position



Farm land values move closer to prewar relationship to farm income



season are larger than in any previous year, and the carry-over as 1956 harvests get under way is expected to be at a record level.

Compared with a year ago, the *corn* supply shows an increase of 8 per cent, the *oat* supply is 12 per cent larger, the *barley* supply is 15 per cent larger, and the *sorghum* grain supply shows a gain of about a third. The total feed grain supply per animal is of record proportions, and in November, prices received by farmers for feed grains averaged 20 per cent lower than a year earlier. The outlook is for continued large supplies and with prices influenced strongly by government programs.

Soybean production has followed an upward trend and a further increase in plantings is in prospect. The 1955 crop is estimated to exceed the previous year by nearly 30 million bushels with crushings, exports and carry-over stocks likely to be at new high levels. Economists in the soybean states of the Midwest expect "prices of soybeans for the year ahead to average moderately above the loan rate."

Wheat supplies are very large; the indicated carry-over at the beginning of the 1956 harvest will exceed a full year's normal requirements for domestic consumption and exports. The

planted acreage has been reduced to the minimum provided by law; a lower support price has been announced for the 1956 crop.

In brief, farm prospects for 1956 indicate a further tightening of the cost-price squeeze. Not until output is brought into balance with the requirement of the domestic and foreign market and the large stocks accumulated from previous harvests are substantially reduced will the rather dim prospects be brightened.

Over the years

Taking a look to the longer-term future, however, it is clear that the total demand for agricultural commodities will increase substantially as population growth continues and diets are upgraded. A major question is whether output will expand at a faster pace than demand. The answer will depend on the pace of technical progress and the amount of labor and other resources used in the industry. Assuming a continued rapid rate of advance in production techniques, a smaller farm labor force will be able to provide the nation's requirements for agricultural commodities. The longer-term prospect for per capita incomes of those who earn their livings in agriculture, therefore, will depend on the size of the farm population as well as the trends in output and prices of agricultural commodities. A recent Michigan study concludes that in the next 20 years farm population may decline from the present 22 million to about 15 million. However, the trend toward suburban and country living may conceal the decline in number earning their livelihood from farming.

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